

EXPORT-LED GROWTH HYPOTHESIS IN MALAYSIA: AN INVESTIGATION USING BOUNDS TEST

CHOONG CHEE KEONG^a
Universiti Tunku Abdul Rahman

ZULKORNAIN YUSOP
Universiti Putra Malaysia

VENUS LIEW KHIM SEN
Universiti Malaysia Sabah

ABSTRACT

The objective of this paper is to test the validity of the export-led growth hypothesis in the Malaysian economy using a more comprehensive sample period and a recent technique, that is, the bounds testing approach. Based on this model, both exports and labour force have stimulated positive adjustment to economic growth, whereas variables such as imports, exchange rate and the East Asian financial crisis are found to influence growth negatively. Moreover, a cointegrated relationship between exports and economic growth was detected in both the long and short runs. Further analysis showed that exports Granger-cause economic growth in the period of study. Thus, this study provides further evidence to support the export-led growth hypothesis in the Malaysian economy.

Key words: Export-led growth, bounds test, causality.

INTRODUCTION

In 1817, David Ricardo proposed that trade enables a country to specialize in the production of a commodity in which it has a comparative advantage. The specialization of production can increase the efficiency of resource utilization by increasing the rate of capital formation and improving the growth rate of total factor productivity (Khalafalla and Webb, 2001).

Since the mid-1980s, the Malaysian economy has been growing rapidly and it has been suggested that such growth is driven by exports (Reinhardt, 2000). However, empirical evidence provides no clear conclusion in this regard (Shah and Yusoff, 1990; Doraisami, 1996; Dodaro, 1993; Ghatak and Price, 1997; Al-Yousif, 1999; Khalafalla and Webb, 2001). Shah and Yusoff (1990) conducted one of the earliest studies on annual data of the Malaysian economy up to 1987 by using the Ordinary Least Squares (OLS) method. Their result supports the export-led growth hypothesis but is refuted by Dodaro (1993) who tested the validity of the hypothesis for 87 countries including Malaysia and noted that the export-led growth hypothesis was not robust in Malaysia. He provided strong evidence of a growth-led export hypothesis and concluded that the relationship between exports and growth

E-mail: ^achoongck@mail.utar.edu.my.